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Janice K. Brewer
Governor

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Director


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MAY -4 2009

May 4, 2009

Commissioner Sandra D. Kennedy
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

DOCKETED BY 

Re: Response to Commissioner Kennedy March 30, 2009 Letter
Arizona Public Service Company – Docket No. E-01345A-08-0172

Dear Commissioner Kennedy:

RUCO has reviewed your March 30, 2009 letter as well as APS' response. RUCO appreciates this opportunity to comment on the concerns regarding the impact these tough economic times have had on places of worship and on low income ratepayers and families. We would be surprised if there is an individual involved in this docket who does not personally know of a family struggling to make ends meet due to a job loss, the fear of a pending job loss, reduction in work hours, losses to their retirement funds or a home foreclosure. Also, we would be hard pressed to find a church, synagogue or other house of worship that has not experienced declining contributions from its congregants over the last several months.

Cost of service ratemaking guarantees fair rates for all of the ratepayers. The principle behind cost of service ratemaking is that ratepayers should only pay for their cost of service. This principle is the cornerstone for sound ratemaking. When the Commission considers exempting one group of ratepayers, the Commission is no longer engaging in cost of service ratemaking. One group of ratepayers will have to pay more for its cost of service to make up for the revenues lost from the exempted group.

RUCO urges the Commission to disengage from cost of service ratemaking only when it is absolutely necessary for public policy reasons. In this docket alone, there are several issues being considered where the Commission will be asked to consider the interests of one group of ratepayers over another. In addition to the House of Worship issues, there are the low income and the free line extension issues. Undoubtedly, there will be strong public policy arguments that you will have to balance for each of these questions. From RUCO's perspective it is important to pay particular attention not only to the

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exempted class ***but also to the ratepayer who will have to pay more than his/her cost of service.***

It is important to weigh these public policy discussions in light of past Commission decisions.

In 2005, Decision No. 67744 created the Power Supply Adjustor (PSA). Adjustors generally shift risk from the company to the ratepayer. The PSA allows APS to pass along to ratepayers 90% of prudently incurred fuel and purchased power costs that exceed the fuel rate embedded into base rates. Decision No. 67744 exempted low income ratepayers from the PSA.

In addition to the exemption from the PSA, low income ratepayers also receive a discounted base rate. This base rate subsidy (not counting the PSA or DSMAC) currently results in \$7 million shifted to other APS ratepayers.

Most recently, the Commission exempted low income ratepayers from the DSMAC in Decision No. 70961 on April 1, 2009.

Thus, other residential ratepayers must cover the costs shifted to them by (1) subsidized low income base rates, (2) exemption of low income ratepayers from the PSA, and (3) exemption of low income ratepayers from the DSMAC.

A benefit provided to one group creates an additional burden on another. Before RUCO can take a position on any proposed cost shift, we must evaluate several factors including the amount of the benefit, the group of ratepayers who benefit, the additional amount shifted to other ratepayers and the policies that support the cost shift. While all subsidies shift costs to other ratepayers, RUCO does not take the position that all subsidies are inappropriate from a public policy perspective.

Houses of Worship and Time of Use Tariffs

TOU plans can particularly benefit houses of worship. Currently, houses of worship may opt for the E-32 general service rates or the E-32 general service TOU rates. Only those houses of worship that opted for the E-20 house of worship TOU rates prior to those rates being frozen in 1995 can continue to be on these rates.

RUCO appreciates the information provided by APS on TOU options available to houses of worship. RUCO is sensitive to the reality that the unfreezing of the E-20 tariff shifts costs to other ratepayers. However, we are open to weighing the societal benefits

of the expansion of the E-20 availability compared to the additional costs to other ratepayers.

Demand Side Management Adjuster Clause (DSMAC) Treatment for Houses of Worship and Low Income Ratepayers

RUCO understands that there has been a significant amount of discussion regarding exempting or freezing the DSMAC rate for certain ratepayers.

As noted earlier, on April 1, 2009, the Commission issued Decision No. 70961 which exempted low income ratepayers from the APS DSMAC.

Currently, the DSMAC rate impact is relatively small. APS will recover \$17.4 million through the DSMAC for costs incurred from 2005 to 2008. According to Decision No. 70961, the monthly DSMAC impact of these costs to the average residential ratepayer (without the exemption for low income ratepayers) is an additional \$0.53 to their monthly electric bill. Exempting low income ratepayers from the DSMAC charge means that other ratepayers will make up the difference. According to APS' figures, exempting low income ratepayers from the DSMAC will result in \$400,000 shifted to other ratepayers this year. If the Commission were to exempt E-20 houses of worship from the DSMAC, an additional \$20,000 would shift to other ratepayers.

In 2008, APS spent \$28 million on Commission-approved DSM projects. As the commission approves larger DSM implementation plans, costs get added to the DSMAC. As the DSMAC grows, so does the amount shifted from low income ratepayers to other ratepayers. The energy efficiency workshops are considering how to allow utilities to recover costs for energy efficiency programs. One possible (and likely) method is to allow recovery through the DSMAC. Finally, the Commission could utilize the DSMAC to recover other DSM-related expenses. For example, a few months ago, TEP filed tariffs to recover its costs for interruptible rates through its DSMAC. Therefore, every time the DSMAC increases, more costs are shifted to other ratepayers.

One of the public policy arguments for providing low income ratepayers a discounted rate is that studies show that this population often lives in energy inefficient housing. Those who have the least amount of money to spend on energy consumption are forced to use more energy due to poor insulation, drafty windows and inefficient appliances. Fortunately, the federal stimulus bill has provided Arizona with \$57 million specifically for low income weatherization projects. These funds directly address the problem of unfair energy use due to poor construction of many low income homes. Hopefully, the monies will be well used to erase this societal inequity.

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Admittedly, some of these discounts and subsidies may result in relatively small amounts of money to be added to each individual ratepayer's bill. However, the effect of each subsidy is cumulative. As the Commission discussed in its April 1, 2009 Open Meeting when discussing the impact an additional \$0.53 would have on the average person's bill, every penny counts. The family budget is stretched thin. People are scrutinizing their spending and trying to prioritize their needs. It is true that one can point to rate subsidies in numerous instances. There are certain societal or environmental benefits that can justify these subsidies. Nevertheless, the decision to take more money from some in order to save money for others is one that must be made with all the facts at hand. RUCO looks forward to considering the merits of specific proposals.

Sincerely,

A handwritten signature in black ink, reading "Jodi A. Jerich". The signature is fluid and cursive, with the first name "Jodi" being more prominent and the last name "Jerich" following in a similar style. The signature is written over the printed name and title.

Jodi A. Jerich, Esq.
Director

cc: Docket Control
Parties of Record
Chairman Kristin K. Mayes
Giancarlo Estrada, Advisor to Chairman Mayes
Commissioner Gary Pierce
John Le Sueur, Advisor to Commissioner Pierce
Commissioner Paul Newman
Alan Stephens, Advisor to Commissioner Newman
Commissioner Bob Stump
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Christina Arzaga-Williams, Advisor to Commissioner Kennedy